

# HOUSING INCENTIVE FUND IMPACT ON AGING POPULATIONS

The North Dakota Housing Incentive Fund (HIF) is an effective, locally-driven, rental housing financing tool created and authorized during the 2011 North Dakota legislative session. Community leaders, private developers, and nonprofit organizations have leveraged HIF to construct new or improve existing rental housing for low- to moderate-income seniors. Because of HIF, seniors have increased access to safe, decent and affordable housing across the state.

## Independent Senior Housing – Making Lives Better and More Meaningful

Community vitality, social connections, affordable housing and quality healthcare are important for North Dakota’s aging population. The state ranks 7<sup>th</sup> in the nation with the highest proportion of individuals ages 85 and older.<sup>1</sup> As seniors age past 80, maintaining financial resources is essential to affording basic needs such as housing, health care, medications, healthy food and transportation.

Currently, 76.1 percent of residents ages 75 to 84 own their own home. For those 85 and older, the number drops to 62.8 percent.<sup>2</sup> According to national trends, 80-years-old is the approximate age that seniors move out of their homes, due to physical restrictions and isolation, and move into more community-based housing.

As seniors explore independent housing options, financial restrictions may prevent them from leaving their home, increasing the potential for accidents and injuries and further isolation. Another hindrance is the availability of affordable housing options due to limited income. The median income for North Dakotans ages 75 to 84 is \$35,900. Individuals 85 and older have a median income of \$19,700.<sup>3</sup> Those living solely off of social security average \$16,133 annually and more than 29,000 rely on social security for 90 percent or more of their income.<sup>4,5</sup>

In order for a senior to not be considered housing burdened, they can allocate up to 30 percent of their income towards housing costs and utilities. Based on median income, North Dakotans ages 75 to 84 can afford to pay \$898 per month for all housing costs, 85 years and older can pay \$492, and individuals living on social security can afford \$403.

It is estimated that one out of two North Dakotans will need long-term care sometime during their lives. As people age, the need for personal assistance with everyday activities increases. Creating affordable housing options allows seniors to age in place longer and be able to utilize in-home care, which promotes independence. Living at home also alleviates pressure on licensed assisted living facilities, which are at 95 percent capacity and licensed long-term care nursing facilities, which are at 93.6 percent capacity.<sup>6</sup>



## Ongoing Need for HIF

Seniors ages 74 to 85-years-old and beyond are able to afford rents ranging from \$403 to \$898 based on their annual median income. The goal is to limit their housing costs to be at or below 30 percent so they are not housing cost-burdened and can afford basic necessities, medications, food and transportation.

Traditional financing mechanisms used for construction and operational expenses require market rate rents to cover expenses. HIF provides critical gap financing to lower debt service, therefore, an affordable rent structure can be implemented to cover operational expenses. Many of North Dakota’s seniors have an income restricted threshold that they need to consider when moving out of their home.

In addition to cost, this segment of the population must take into consideration accessibility and physical limitations when evaluating rental housing. If they are not able to find affordable rental housing they must stay in their current home, which may pose additional risk to their health and well being or move into an assisted living , basic care or nursing home facility. The monthly average cost for these facilities are: assisted living \$2,341, basic care \$3,668, and nursing facility \$7,871.<sup>7</sup> During the 2017-2019 biennium budget, the state of North Dakota, allocated more than \$393 million to North Dakota Department of Human Services for long-term care services and expenses.<sup>8</sup>

Below is a financing scenario detailing the difference in rent structure to cash flow a traditional financed project and one leveraging gap financing. Construction and operations costs are the same, however, seniors can be offered affordable rents based on their income when gap financing eliminates the need to take out a 20-year loan.

### New Construction Scenario

#### 24 Unit Apartment Building

Cost of Construction is \$175,000 (per unit) x 24 units = \$4.2 million

Traditional Financing Market Rate Rent		Non-Traditional Financing Income Restricted Rent	
Equity Investment	\$1.26 million (30%)	Equity Investment	\$1.26 million (30%)
Loan	\$2.94 million (70%)	Gap Financing	\$2.94 million (70%) <i>(ie HIF, federal funds, private investments/donations)</i>
<i>Annual Expenses:</i>		<i>Annual Expenses:</i>	
\$252,757	Loan Payment (6%, 20 years)	\$0	Loan Payment
\$120,000	Operating Expense	\$120,000	Operating Expense
<u>\$100,800</u>	Return on Equity (8%)	<u>\$100,800</u>	Return on Equity (8%)
\$473,557	Annual revenue needed from rents to cover expenses	\$220,800	Annual rent revenue needed from rents to cover expenses
<b>Average Monthly Rent Per Unit to Cover Expenses:</b>		<b>Income Restricted Rent Structure to Cover Expenses:</b>	
<b>\$1,644</b>		<b>5 units at \$403</b>	<b>5 units at \$898</b>
		<b>5 units at \$493</b>	<b>9 units at \$1,050</b>

## Financing Structure

HIF awards are structured as forgivable loans and are available to local housing authorities, tribal entities, and nonprofit or for-profit housing developers. The maximum award size varies depending on whether a project also receives federal funding. The award amount typically equals less than 30 percent of the total development cost, and no more than \$3 million. Awards are competitive and projects must meet strict scoring criteria.

<sup>1,6,7.</sup> 2017 North Dakota Long Term Care Facts & Figures.

<sup>2,3.</sup> U.S. Census Bureau. 2017 Decennial Census and American Community Survey.

<sup>4.</sup> 2017 North Dakota OASDI Beneficiaries.

<sup>5.</sup> 2017 North Dakota AARP Fact Sheet.

<sup>8.</sup> Department of Human Services Human Services Committee presentation July 27, 2018.